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CENTRAL INTELLIGENCE AGENCY

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evaluation of the Soviet-East German Economic Agreements signed in Moscow during the period 3-8 January 1957 25X1
 discussed by the delegation of Germany and the USSR. questions

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~~SECRET//NOFORN~~Evaluation of the Economic Agreements Between East Germany and the USSR,Signed During the Negotiations in Moscow Between 3 and 8 January 1957

The negotiations regarding an official trade agreement between East Germany and the USSR are currently still in progress. In connection with the additional economic aid, which the USSR found it suddenly necessary to render to East Germany because of the decline in Polish and Hungarian deliveries, a protocol was signed between East Germany and the USSR on 7 January 1957, during the Moscow negotiations, which were held between 3 and 8 January 1957. In addition to settling several questions, this protocol contains the terms of the mutual economic relations between the USSR and East Germany for 1957.

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The following main topics are contained in the protocol:

1. A 30-percent increase in deliveries of USSR goods to East Germany during 1957 compared to 1956, particularly concerning increased deliveries of Soviet metallurgical coke, rolled steel, sawn timber, grain, meat, butter, etc.

On the other hand, a definite increase in the quota of deliveries of East German goods to the USSR during 1957 is not specifically established in the protocol. In connection with the increase of USSR goods to be shipped to East Germany, however, mention is made of the fact that these shipments are to be made "in exchange" for deliveries of capital and consumer goods.

Another part of the protocol speaks of preparations to be made in 1957 for the utilization of free capacities in machine building in East Germany to provide for production of equipment required by the USSR.

A specific commodity list for the 1957 exchange of goods will be attached to the still-to-be-negotiated trade agreement for 1957.

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2. The granting to East Germany of a free currency credit for 1957, amounting to 340 million rubles, by the USSR; this credit is to be granted at a 2-percent interest rate and is to be repaid by East Germany in 1959 and 1960 through deliveries of goods. The credit is specifically intended to permit East Germany to purchase essential goods for her economy, that is to say, those goods which the USSR is unable to deliver at all or only in insufficient quantities.

3. Agreements for negotiations between pertinent organs of the USSR and East Germany on the one side, and Poland on the other side, in connection with introducing measures to eliminate bottlenecks in goods traffic via the Polish railroads.

In addition to provisions for continued planned close technical and scientific cooperation between the USSR and East Germany, the remaining articles of the protocol contain provisions for regulating technical, financial, and juridical questions connected with the Soviet occupation forces, re-state the terms of accountability for uranium ore deliveries made to the USSR, and cover a number of political points.

An evaluation of the accords contained in the document is necessarily limited by the fact that even in the case of purely economic agreements, these are of a ^K~~skeletal~~ nature. The methods of implementation are currently still under negotiation and the details which have thus far become known do not suffice to provide for a final evaluation.

Temporarily, however, the following conclusions are apparent:

a. East Germany can count on the USSR to contribute to the ^{all}~~alleviation~~ of the worsened supply situation, to support the fulfillment of the economic plans for 1957, and, through deliveries of agricultural products, to endeavor to effect some degree of stability in the Communist regime; the above difficulties being caused by the events in Poland and Hungary. In this connection, and as was apparent from the early February 1957 speech by Bruno Leuschner, Chief of the East German State Planning Commission, the

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USSR had indicated that she could not fully compensate East Germany for the losses resulting from the failure of Poland to meet delivery commitments. Leuschner ordered the East German economy to institute drastic consumption cutbacks in 1957 for coal and coke and to produce at least [illegible] million tons of brown coal briquettes, 3 million tons of sifted coal, and 100,000-200,000 tons of hard coal above the plan in 1957, to assure adequate supplies. In addition, a part of industry is to be converted to burning masout and fuel oil, since these fuels are more easily obtained. In the case of fuels, and similar bulk goods delivered by the USSR, the problem seems to be one of transportation, whereas in the delivery of semi-finished goods, such as rolled steel, the difficulty lies in the preparation of adequate technical specifications and the assortment of deliveries. Also, the USSR has only limited delivery possibilities in a number of commodities which are important to her own economy.

The volume of goods to be delivered by East Germany to the USSR depends to such an extent on the regulation of all above questions and on the agreement concerning mutual demands, that the absence of any definite numerical and quantitative agreements in the subject protocol is absolutely understandable. Indications are, however, that the USSR will accept a certain lag in delivery of East German goods, so that the planned exports from East Germany during 1957 will not experience the same ratio of growth as imports from the USSR.

b. The 340-million ruble credit granted East Germany by the USSR for 1957 is intended for the purchase of such goods which constitute bottlenecks in the USSR and is of great significance. It is most probable that East Germany will endeavor to use this credit to make purchases in the Sterling area and that increased efforts will be made to circumvent embargo obstacles. The quantity and method of repayment permit the conclusion that the USSR believes that the current difficulties in the Satellites will be overcome in 1957 and 1958.

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c. One of the main difficulties in implementing the planned rise in the shipment of bulk cargo and goods from the USSR to East Germany lies in the limited capacity of the transloading stations, where goods have to be transloaded from wide to standard gauge track in the Polish-USSR border area, and in the overtaxing of Poland's east-west transit lines. Additional transloading of some 750 extra railroad cars per day can be anticipated for 1957 in USSR-East German transit. In view of the heavy Polish-USSR traffic at PRZEMYSŁ and CHELM-DOROHUSK, and the inadequate capacity for transloading along the northern routes, the bulk of this increase would have to be handled at the already over-loaded transloading points along the BREST-FRANKFURT line. However, this is impossible without provisions for expansion. Negotiations with Poland are already under way, but the extent to which a rapid alleviation of the situation can be brought about is questionable. The problem becomes more complicated since the USSR is likewise limited in the choice of delivery routes on her own territory and must avoid any unnecessary detours in transporting mass goods. Similarly, the use of sea traffic provides only limited relief. Without solving the transportation difficulties, realization of the 1957 economic agreements between the USSR and East Germany is not feasible.

Economic Bottlenecks in East Germany

A precise presentation of the economic bottlenecks in East Germany, which also takes the effect of the absence of selected items which are in short supply into account, is being prepared [by the originating office?].

A preliminary list of bottleneck goods, which, according to all indications, will not be available from the USSR or other bloc nations at all, or only in part, is presented below:

1. Hard Coal and Hard Coal Coke

No solution of the supply situation for 1957 is as yet apparent. It can be anticipated that East Germany will attempt to create a stockpile of metallurgical coke

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2. Mining Products

Iron ore, titanium ore, pyrites, mica, raw phosphate, feldspar, graphite.

3. Pig Iron and Raw Steel

Foundry pig iron	1956 Import Plan: 170,000 tons
Open-Hearth pig iron	1956 Import Plan: 180,000 tons
Ferrosilicon	1956 Import Plan: 1,900 tons
Ferrovanadium	1956 Import Plan: 20 tons
Raw steel	1956 Import Plan: 500,000 tons (approx.)

Forging or mill scale for production of domestic ferrochrome; special steel from GLUEWER and COMPANY, WUPPERTAL-EBERSFELD; all alloy steels, particularly ST45, ST52, 20 Mn-5 Cr; Cr Si 3½; V 2 a; Ferrochrome, and Ferromanganese.

4. Semi-Finished Steel Goods

All rolled, forged, and cast alloy steels; automatic steel of all kinds, up to 5 millimeters in diameter; nitriding steel; rolled shapes for light construction; heat-resistant screw stock; deep drawing sheet metal, particularly less than 1 millimeter thick (shortage for camera industry); ball bearing steel rods and pipe; cold-rolled strip steel of Krupp quality; refractory steels for turbines and boilers, capable of resisting from 200-300 atmospheres at 600 degrees centigrade. (Only if East Germany receives these steels, can she produce electric power with high-capacity power-producing equipment, as called for in the Second Five-Year Plan).

Chrome-nickel steel for turbine blades, to be purchased from the Alloy Steel Mill at Krefeld. Large forgings for turbines, especially made by the VEB Bergmann-Borsig Enterprise in Berlin-Wilhelmsruh, purchased from the Bochumer Verein und Rheinstahl Union Company; Crankshaft steel for turbogenerators; Krupp spring steel strips; high-quality dynamo sheets; high-quality transformer sheets, with a watt leakage of 0.6-0.7 watts per kilogram. (East Germany is only able to produce transformer sheets with a

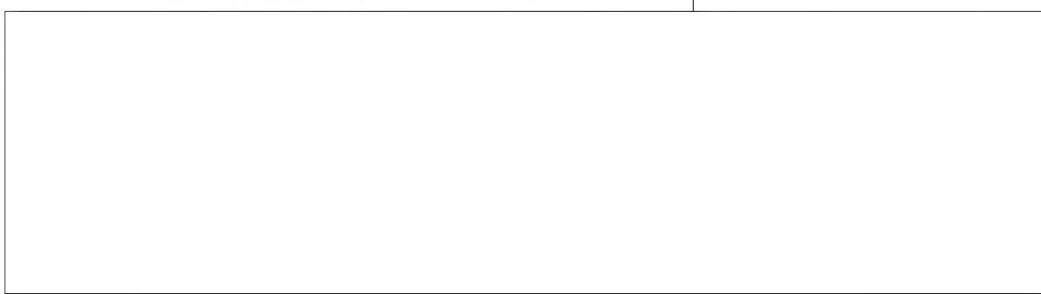
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watt leakage of 1.1-1.3 watts per kilogram. Without low watt-leakage transformer sheets, the East German electrical industry will soon not be capable of producing for export):

Spring steel; autoclaves; ERMETO pipe fittings (screw-type closures for hydraulic installations which are not produced at all in East Germany). Highly-alloyed high-pressure pipes; V 2 A steel sheets, rods, angle, and specially seamless pipe and high-pressure pipe.

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5. Non-Ferrous and Precious Metals

There are bottlenecks in almost all sectors of this industry, both in raw materials, as well as in semi-finished products. The shortage of copper is so great, for example, that copper cable not suitable for East Germany is being purchased in the west for re-melting. There is a particular shortage of lacquered copper wire in various sizes.

Similarly, fine zinc is also a bottleneck area, since Polish deliveries of this item are wholly inadequate. A decided shortage is evident in bimetals for electrical repairs

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The same situation holds true for East German supplies of beryllium.

6. Machines and Equipment, Including Spare Parts and Accessories

The following are needed:

Mining equipment, including hoisting cables and cables in general, as well as pumps; a modern direct-process oil-feed installation (Rennanlage) for the planned Nickel smelter at St. Egidien; special assortments of heavy presses and boring mills; lathes and planing machines, as well as precision machine tools for the metal working industry; special machines for watch factories; selected types of cutting and stamping tools; grinding and

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polishing disks of the highest quality for precision parts; chemical apparatus, including equipment for the rubber industry, including urgently needed equipment for the development and expansion of the plastics industry, including mixing machines; heavy duty extrusion presses; high-quality calenders; vacuum deep-drawing machines; forming machines for fiber-glass materials, and high-frequency heating generators.

Other equipment required includes individual types of machines for the food-processing and luxury goods industries; universal hoisting equipment and high-capacity cranes; tropical insulation for exported transportation equipment and other products for tropical countries; gears; clutches; roller bearings; non-ferrous metal bearings; roller chains; steel bottles and containers, and raw diamonds for wire drawing enterprises.

7. Electrotechnical, Precision Mechanical and Optical Products and Auxiliary Materials

Special assortments of electric motors, transformers, and high-voltage equipment; cables and conduits, including special cables for automotive electrical equipment, as well as various dimensions of lacquered wire; cable paper, particularly for the Berlin Cable Plant.

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[] Import lags in this field 25X1
have already caused repeated production standstills.

Switches; regulators; meter boards; "Schuko" sockets; high-wattage light bulbs; X-ray machines and accessories, as well as other medical electrical equipment; various types of control and measuring instruments; crystals for the optical industry; photographic shutters (no East German camera can be sold abroad unless it has a western-type shutter).

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[] Also watches and watch movements. 25X1

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8. Chemical Products, Including Rubber, Cellulose, and Paper, and Auxiliary Materials

Fine chemicals (reagents); bleaching earths; kieselguhr; borax; boric acid for the production of optical glass (a lack of western deliveries could cause production cutbacks); zinc oxide; freons; acid-resistant stone wear made of spar, of which there is a shortage in East Germany; dyes and pigments; theobromine, pyramidon, codein, and vitamin B; essential oils; glycerin; photogelatine; natural rubber; best-quality active rubber fillers, particularly for the manufacture of protective rubber clothing; vulcanizing pigments for rubber products, since East German production of this item is inadequate both in quality and quantity; solvents for porous crepe and foam rubber; rubber gaskets, particularly driveshaft gaskets; numerous synthetic resins; fatty acids; lacquer oil; various kinds of cellulose, particularly acethylcellulose; celluloid; cellophane; technical paper; cartons, and cardboard.

To What Extent is the USSR Able to Live up to Contractual Commitments Made With East Germany?

Since the USSR commitments are thus far only expressed in generalities, rather than in concrete figures and types of commodities, a final evaluation cannot yet be made. Of the commodities to be delivered to East Germany, several are in short supply in the USSR. These include metallurgical coke, some rolled products, meat and butter. In the case of such items as grain, raw petroleum, and sawn timber, USSR production is such that export commitments could be increased without major difficulties.

The following situation results in the case of the bottleneck products: The additional East German requirements for these goods, when measured in terms of USSR production, are relatively small. However, the combined requirements of all the European Satellites for these selected commodities does pose a problem to the Soviet economy. The USSR will probably attempt to keep the individual requirements for these bottleneck products to a minimum, so as to be able to meet commitments at all costs. By granting

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free currency credits, the USSR is placing East Germany in a position of being able to purchase elsewhere those essential products which the USSR could not deliver without damage to her own economy.

The transport situation will prove to be a serious obstacle to deliveries of normal and bottleneck goods.

In summary, it can be concluded that:

a. Because of transport problems, the flow of goods will only increase gradually;

b. As a result of the transport situation, the currently critical supply situation in East Germany will only be changed to a very limited degree in the immediate future by the 7 January 1957 agreements.

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